

FISCAL NOTE

Bill #: SB0008

Title: Temporary cigarette tax to fund social services

Primary Sponsor: John Cobb

Status: As Introduced

| | | | |
|-------------------|------|---------------------------------|------|
| Sponsor signature | Date | Chuck Swysgood, Budget Director | Date |
|-------------------|------|---------------------------------|------|

Fiscal Summary

| | <u>FY2003 Difference</u> | <u>FY2004 Difference</u> | <u>FY2005 Difference</u> |
|--|------------------------------|------------------------------|------------------------------|
| Revenue: | | | |
| General Fund | (\$65,276) | (\$90,469) | (\$89,069) |
| State Special Revenue (DPHHS, Social Services) | \$3,306,941 | \$4,583,281 | \$4,512,349 |
| Capital Projects Fund (LRBP) | (\$12,056) | (\$16,709) | (\$16,451) |
| State Special Revenue (DPHHS, Vet. Nursing...) | (\$9,572) | (\$13,266) | (\$13,061) |
| Net Impact on General Fund Balance: | (\$65,276) | (\$90,469) | (\$89,069) |

| <u>Yes</u> | <u>No</u> | | <u>Yes</u> | <u>No</u> | |
|------------|-----------|----------------------------------|------------|-----------|-------------------------------|
| | X | Significant Local Gov. Impact | X | | Technical Concerns |
| | X | Included in the Executive Budget | X | | Significant Long-Term Impacts |
| | X | Dedicated Revenue Form Attached | X | | Family Impact Form Attached |

Fiscal Analysis

ASSUMPTIONS:

- Under current law, the cigarette tax rate is \$0.18 per pack.
- Under this proposal, the cigarette tax rate is increased to \$0.26 per pack beginning October 1, 2002. The proposed tax applies to cigarettes in the possession of wholesalers on October 1, 2002. The tax is decreased back to \$0.18 beginning July 1, 2005. These proposals are shown Table 1.
- Under current law, cigarette tax revenues, after tribal revenue sharing payments, are distributed 73.04% to the state general fund; 15.85% to the Long-Range Building Program Account; and 11.11% to the Department of Public Health and Human Services for the operation and maintenance of state veterans' nursing homes.
- Under this proposal, cigarette tax revenues, after tribal revenue sharing payments, are distributed in the same manner as under current law for collections prior to October 1, 2002 from the \$0.18 tax.
- Under this proposal, cigarette tax revenues, after tribal revenue sharing payments, are distributed 50.6% to the state general fund; 30.7% to the Department of Public Health and Human Services for the use of the department in providing social services; 11% to the Long-Range Building Program Account; and 7.7% to

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the Department of Public Health and Human Services for the operation and maintenance of state veterans' nursing homes. These distributions are for those tax collections beginning October 1, 2002 through June 30, 2005.

6. Under this proposal, cigarette tax revenues, after tribal revenue sharing payments, are distributed in the same manner as under current law for collections beginning July 1, 2005 from the \$0.18 tax. These proposals are shown Table 1.

| Table 1 SB8 (Special Session 2002) As Introduced Current Law and Proposed Law Tax Rates and Distribution of Net Revenue | | |
|--|-----------------|------------------------------------|
| Revenue Fund | Tax Rate | Distribution of Net Revenue |
| Current Law | | \$0.18 |
| General Fund | | 73.04% |
| LRBP | | 15.85% |
| DPHHS (Veteran Nursing Homes) | | 11.11% |
| Proposed Law - July 1, 2002 to October 1, 2002 | | \$0.18 |
| General Fund | | 73.04% |
| LRBP | | 15.85% |
| DPHHS (Veteran Nursing Homes) | | 11.11% |
| Proposed Law - October 1, 2002 to July 1, 2005 | | \$0.26 |
| General Fund | | 50.60% |
| DPHHS (Social Services) | | 30.70% |
| LRBP | | 11.00% |
| DPHHS (Veteran Nursing Homes) | | 7.70% |
| Proposed Law - July 1, 2005 and on | | \$0.18 |
| General Fund | | 73.04% |
| LRBP | | 15.85% |
| DPHHS (Veteran Nursing Homes) | | 11.11% |

7. The impacts of the cigarette tax rate increase to \$0.26 per pack will generate new net revenue of \$3,220,038 in fiscal 2003, \$4,462,836 in fiscal 2004, and \$4,393,768 in fiscal 2005. Revenue to the state general fund will **decrease** by \$65,276 in fiscal 2003, \$90,469 in fiscal 2004, and \$89,069 in fiscal 2005. Revenue to the Department of Public Health and Human Services for providing social services will **increase** by \$3,306,941 in fiscal 2003, \$4,583,281 in fiscal 2004, and \$4,512,349 in fiscal 2005. Revenue to the Long-Range Building Program Account will **decrease** by \$12,056 in fiscal 2003, \$16,709 in fiscal 2004, and \$16,451 in fiscal 2005. Revenue to the Department of Public Health and Human Services for the operation and maintenance of state veterans' nursing homes will **decrease** by \$9,572 in fiscal 2003, \$13,266 in fiscal 2004, and \$13,061 in fiscal 2005.
8. The above impact in assumption seven is calculated using a model developed by the Department of Revenue (DOR). The DOR cigarette tax revenue estimate under current law for fiscal years 2003 through 2005 is used as the base. In addition to DOR's base estimate, a price elasticity of demand for cigarettes of 0.44 is used in this model. Given a base cost of \$2.82 per pack, which is used in this model, and an elasticity of 0.44, each penny increase in the price of a pack of cigarettes results in a decrease in demand of 0.16%.
9. This proposal has no impact on Department of Revenue administrative expenses.

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FISCAL IMPACT:

| | <u>FY2003</u> <u>Difference</u> | <u>FY2004</u> <u>Difference</u> | <u>FY2005</u> <u>Difference</u> |
|---|------------------------------------|------------------------------------|------------------------------------|
| <u>Revenues:</u> | | | |
| General Fund (01) | (\$65,276) | (\$90,469) | (\$89,069) |
| State Special Revenue (DPHHS, Social Services) (02) | \$3,306,941 | \$4,583,281 | \$4,512,349 |
| Capital Projects Fund (LRBP) (03) | (\$12,056) | (\$16,709) | (\$16,451) |
| State Special Revenue (DPHHS, Vet. Nursing...) (04) | (\$9,572) | (\$13,266) | (\$13,061) |

Net Impact to Fund Balance (Revenue minus Expenditure):

| | | | |
|---|-------------|-------------|-------------|
| General Fund (01) | (\$65,276) | (\$90,469) | (\$89,069) |
| State Special Revenue (DPHHS, Social Services) (02) | \$3,306,941 | \$4,583,281 | \$4,512,349 |
| Capital Projects Fund (LRBP) (03) | (\$12,056) | (\$16,709) | (\$16,451) |
| State Special Revenue (DPHHS, Vet. Nursing...) (04) | (\$9,572) | (\$13,266) | (\$13,061) |

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

This proposal has no impact on county or other local government revenues or expenditures.

LONG-RANGE IMPACTS:

Beginning July 1, 2005, tax collections will decrease significantly. The Department of Public Health and Human Services will no longer receive revenue from the cigarette tax for providing social services. Revenue to the state general fund, Long-Range Building Program Account, and Department of Public Health and Human Services for the operation and maintenance of state veterans' nursing homes should increase slightly.

TECHNICAL NOTES:

1. This proposal will require the Department of Revenue to carefully review the September 2002 inventories and purchasing history of all the licensed cigarette wholesalers to insure the wholesalers do not stockpile \$0.18 cigarette stamps. Currently the Department of Revenue receives a monthly filing of the current inventories and monthly sells from each wholesaler so the review will not require travel or field audit.
2. The estimates provided in this fiscal note assume there will not be significant stockpiling by the wholesalers or retailers of cigarettes taxed at \$0.18 per pack. The current language of this bill doesn't necessarily prevent retailers from purchasing an unusual amount of cigarettes prior to the tax increase.